

KENT POLICE AUTHORITY
AUDIT & FINANCE COMMITTEE

24 JUNE 2009

STATEMENT OF FINAL ACCOUNTS 2008-2009

Report by: Treasurer
Classification: Unrestricted

INTRODUCTION

1. Under the Accounts and Audit Regulation 2003, the Authority's accounts must be approved by the Audit and Finance Committee by the end of June. The role of the Audit and Finance Committee is to scrutinise and approve the accounts. The draft Accounts are attached as **Appendix A**. At this stage the Auditors' Report to the KPA on pages 6-9 is left blank, and will be inserted later.
2. Budget monitoring reports have been presented to the Audit and Finance Committee during the year. The final such monitoring report, based upon the outturn, is attached as **Appendix B**.
3. The KPA budgeted for a net expenditure of £266.8m for 2008/9. The actual net expenditure was £266.1m. This under spend of £0.7m is reflected in a non-budgeted transfer to general reserves.
4. Full details are explained in Appendix B, although anticipated under spends were reported in earlier meetings.
5. The underspending is broadly as previously forecast, but this arises from a combination of counterbalancing factors. There was a saving in PFI costs, which were highlighted as a possible saving at KPA meetings, but were not actually taken until confirmed in March. This was offset by increased costs in police SPP pay and Forensic costs.
6. The KPA has a 5-year medium term capital programme that is supported by the Estate and Information Systems Strategies and a vehicle renewal programme. The 5-year programme is funded from capital grants, capital receipts and revenue account contributions. Capital expenditure during 2008/9 was £5.6m as follows:

Nature of Expenditure	£m.
Estates	1.2
IT	1.2
Vehicles/Equipment	<u>3.2</u>
Total	<u>5.6</u>

7. Other issues worthy of a special mention, including where the format of the accounts has changed from previous years, are covered in the following paragraphs.
8. All Local Authorities have received guidance from the Chartered Institute of Public Finance and Accounting (CIPFA) regarding how to treat deposits in Icelandic Banks. The guidance has been issued by the Local Authority Accounting Panel in Bulletin 82.
9. Kent Police have followed the guidance and have assumed that there will be a 20% write off of all balances within Heritable Bank, 5% write off of Landsbanki balances and no write off of Glitnir.
10. The Bulletin gives guidance around when deposits could be returned to investors and also gives details about how Authorities should calculate the present value of such returns (impairment).
11. We have impaired all the deposits in line with the guidance, which also advised that impairments are written to the Financial Investments Adjustment Account (shown on page 35 of the accounts).
12. These adjustments have had no effect on the revenue account because we have followed the provisions of the regulations that defer the accounting impact of the impairment until 2010/11.

Final Accounts

13. The attached set of statements comprise the Authority's accounts for 2008-2009, which have been prepared by the Force finance staff. I have signed the accounts and the Chairman of the Committee will sign them after this Committee has approved them.
14. The audit certificate will not be signed until after the approval by the Authority. The external auditor has, however, completed his work on the accounts and will present his draft report to the meeting.
15. The accounts have been prepared under the requirements of the Code of Practice on Local Authority Accounting (SORP) and the Best Value Accounting

Code of Practice published by the Chartered Institute of Public Finance and Accountancy. The Code of Practice constitutes a "proper accounting practice" under the relevant legislation and therefore has statutory force. The Code prescribes the acceptable policies for the treatment of income, expenditure and balances, as well as the format and content of the various statements, which comprise the final accounts.

16. The statements taken together are intended to provide a sufficient explanation of the Authority's financial position. The following brief comments are offered as an additional guide to the Committee.

Explanatory Foreword

17. The Foreword is intended to provide a brief overview, referring to any significant matters contained in the accounts, and setting out the context, which has produced the position described by the accounts.

Statement of Responsibilities

18. This sets out the respective responsibilities of the Authority and the Treasurer in relation to the production of the final accounts.

Annual Governance Statement

19. This statement, which appears as item 6 above, demonstrates that the Police Authority has adequate and robust systems of governance.

Auditor's Report

20. The external auditor will provide an independent opinion as to whether the statement of accounts presents fairly the financial position of the Kent Police Authority at 31 March 2009 and its income and expenditure for the year ended 31 March 2009. This appears as Item 7 (c) on the agenda.

Accounting Policies

21. The purpose of this statement is to explain the basis of the figures in the accounts. The statement should disclose the accounting policies, which are significant to the understanding of the Authority's accounts. The most important in our case are: the basis on which debtors and creditors are included; the policies in relation to reserves and provisions; the treatment of fixed assets, depreciation and capital charges, and the accounting for pensions costs.

Income and Expenditure Account and Notes

22. The Summary Income and Expenditure Account is accompanied by a set of explanatory notes. This sets out the income and expenditure for the year 2008-2009.

23. The Income and Expenditure Account reflects year-end capital accounting entries in accordance with the Code of Practice. The purpose of this is to show the true cost of using assets and to improve the comparability of accounting information between local authorities.
24. This account shows a large deficit due to the charge made for retirement benefits in accordance with FRS 17. This figure is calculated for the Force by Hymans Robertson, a firm of actuaries, using Force data.

Statement of Movement on the General Fund and note of reconciling items for this statement

25. These reconcile the deficit showing on the face of the revenue account.
26. As mentioned above the deficit is made up of capital costs, retirement benefit costs and movement in reserves.

Statement of Total Recognised Gain and Losses

27. This statement reconciles the movement in the balance sheet, which as can be seen, is made up of deficit on the Revenue account, the surplus arising from the revaluation of fixed assets and the actuarial gains on the pension fund assets and liabilities (provided by Hymans Robertson).

Balance Sheet and Notes

28. The balance sheet sets out the financial position of the Authority as at 31 March 2009, and is also accompanied by explanatory notes. The statement shows the balances and reserves at the Authority's disposal, its long-term indebtedness, and the fixed and net current assets employed in the policing operations, together with summarised information on the fixed assets held.
29. Fixed assets were valued at £196.7m. The basis of valuation is fully explained in the notes, and complies with the Code of Practice. The Authority's continuing beneficial cash flow is reflected in the figure for short-term investments of £36.8 million, which takes the impairment on the Icelandic banks into account (see above).
30. A rolling valuation of 20% of the Police Authority's property portfolio was carried out by Messrs Wilks Head Eve, Chartered Surveyors, with land and buildings being valued as at 1 April 2008.
31. Properties regarded by the Authority as operational were valued on the basis of Existing Use Value or (where this could not be assessed due to lack of market for the subject asset) by Depreciation Replacement Cost. These values do not, therefore, bear any relationship to the prices that could be realised on disposal of those assets. Only properties regarded by the Authority as non-operational were

valued on the basis of Market Value.

Cash Flow Statements and Notes

32. This statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows a net cash inflow mainly due to a reduction in short term investments to cover increased employee and other costs.

Notes to the Core Financial Statements

33. These notes provide additional information in support of the statement of Accounts.
34. Members attention is drawn particularly to the "Statement of Movement in Reserves" shown in note 20 on page 33 of the Statement of Accounts. This statement provides detailed information to explain the reserves position as shown on the balance sheet. The presentation of the reserves distinguishes clearly those reserves which represent real spending power from those which represent accounting adjustments. A brief description of the revenue reserves appears below.
35. It is suggested that the General Reserve is increased by £658k, bringing the total to greater than 2% of net budget expenditure, which is KPA policy. The increase is recommended to take account of future requirements coming from the economic downturn, which could possibly have been covered by underspends in the past e.g. Climate Camp demonstrations.
36. The Budget Equalisation Reserve is required to enable the Police Authority to meet its budget requirements within the anticipated General Grant and Council Tax increases over the next three years, whilst planned ongoing savings are achieved. This has been increased by a transfer from Insurance Reserve as agreed at February KPA.
37. The remaining Invest to Save Reserve is required to complete projects approved during 2008/09.
38. Budget Rollforward is used when there is underspend that can be allocated to budget holders to support future expenditure. There is no available underspend in 2008/9.
39. The insurance earmarked reserve has decreased by £6.1m to £6.4m. £6m of this was approved at the February KPA, the remainder being a provision for old year claims.
40. The Proceeds of Crime Reserve is used to ensure there are funds to pay for the financial investigation team.

41. The Desk Top Replacement Reserve was set up to ensure the revenue account was not affected by large variances caused by the lumpy nature of the replacement program.
42. The PFI Residual Value Reserve will increase throughout the life of the PFI prior to the assets being transferred to Authority ownership. The large increase in the year is due to the North Kent PFI coming into use.
43. As required by accounting regulations, a credit reserve of £1,513m has been established to reflect unfunded pension liabilities. The increase of £84m is due to the recalculation of future liabilities.

Summary Accounts

44. A copy of the Draft Summary accounts is attached at Appendix C. These accounts are intended to facilitate a clearer understanding of the Authority's financial position.

DECISION REQUIRED

45. Approve the final accounts for 2008/09 shown in Appendix A
 Approve the allocation of resources to reserves, as described in paras 33-43 of this report
 Approve the Summary accounts shown as Appendix C

Background documents:

Policing Plan and performance:	This is linked to use of resources
Budget (revenue and capital):	See main report
Diversity and fairness: <ul style="list-style-type: none"> • Minority ethnic • Gender • Age • Religion / belief • Sexual orientation • Disability 	Any Impact on diversity: None
Children's Duty (Every Child Matters) implications:	None
Risk:	None
Environmental Impact:	None
Background documents:	SORP, CIPFA LAAP Bulletin 82
Summary or reference to relevant legislative provisions:	Accounts and Audit Regulations 2003
Summary of relevant consultation findings:	None
Impact on or links to collaboration:	None

